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SUBJECT: SENEGAL: INDIAN IFFCO TO CONTROL ICS

REF: DAKAR 666

¶1. Summary: On July 16 the Government of Senegal and the Indian Farmer Fertilizer Cooperative Limited Group (IFFCO) signed a new agreement to rescue Senegal's major phosphate producer, ICS. The goal of the negotiations was to recapitalize ICS, gain creditors' confidence, attract new shareholders, and after two years of minimal mining, processing, and export activity, bring ICS production back to historic levels. The new ICS, if equipment upgrades take place, could significantly improve Senegal's GDP growth prospects and balance of trade situation. However, since the GOS will now own only 10 percent of the firm and because of a tax holiday included in the agreement, the GOS will not benefit from a major increase in revenue. End summary.

ICS COMING BACK ON-LINE

¶2. The importance of getting ICS back to near historic levels of phosphate and phosphoric acid production has been a constant theme from donors, the IMF, and Senegal's business community. ICS has, in years past, accounted for an estimated three percent of Senegal's GDP. However, this agreement's initial goal is only to get ICS up to 50 percent of its historic capacity. Major investments by IFFCO and its new partners to upgrade equipment will be required to boost production higher.

¶3. Highlights of the agreement, which will allow IFFCO to control a majority of the company's shares include:

-- IFFCO must invest CFA 40 billion (USD 80 million) in cash to recapitalize ICS and pay debt. IFFCO must also present a new business plan to the GOS and creditors. (Note: as noted in reftel, the interim agreement signed in February 23, 2007 had previously required IFFCO to invest the same amount by June 30, 2007. End note.);

-- IFFCO is required to publish the list of ICS's new consortium members before September 30, 2007. This will entail new negotiations with ICS shareholders and creditors. (Note: previously, ICS shareholders were: the GOS 46.38 percent, IFFCO 19.09 percent, the government of India 6.97 percent, the French firm Societe Commerciale de Potasse et de l'Azote (SCPA) 4.76 percent, the Government of Cote d'Ivoire 4.27 percent, the government of Nigeria 3.95 percent, the Government of Cameroon 3.35 percent, the Islamic Development Bank 3.34 percent, and various others 7.92 percent. End note.);

-- the consortium that includes IFFCO and other local and foreign partners will control 90 percent of ICS's shares while the GOS will retain only 10 percent;

-- the GOS will grant IFFCO 25 years of tax and fiscal exonerations;

-- IFFCO must conclude negotiations with creditors before September 30, 2007; a transitory joint committee led by the GOS will monitor the negotiation efforts with creditors. (Note: ICS has arrears of over USD 400 million in both short- and long-term debt including approximately USD 140 million owed to local banks. End note.);

-- IFFCO is required to retain 20 percent of phosphoric acid production in Senegal for the fabrication of fertilizers to be sold in Senegal and neighboring countries;

-- IFFCO will control ICS's current phosphate deposits and pursue investment on other new mineral exploitation agreements;

-- the GOS must help make the company profitable by "securing the business environment to support IFFCO's investment."

¶4. With the signed agreement in hand, IFFCO's General Manager told the press that his company's immediate plans will include increasing sale turnovers up to USD 200 million per year (from the estimated USD 100 million in 2006) and the construction of a new cement plant near ICS's phosphate deposit.

COMMENT  
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¶5. For more than a year the GOS has been in negotiations with IFFCO (and perhaps other potential donors) to rescue ICS, its 2,500 employees, and the important foreign exchange earnings the company can generate. While this agreement is welcome, in the end it does not appear the government gained any more from the negotiations than it could have received 18 months ago, but now ICS is in further need of new investment and improvements. And the deal is not yet done. Finding new partners willing and able to commit significant financing for ICS's revitalization and reaching a final agreement

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with creditors to either reschedule or forgive ICS's debt by September 30 will be a very difficult task for IFFCO.

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